



DCMA Pricing Update

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DCMA Director

June 6, 2000

Discussion Topics

- Agency Update
- CASB Review Panel
- Paid Cost Rule
- Price-based Acquisition Study
- DSB Task Force
 - Profit Policy
 - Financing Policy
 - Restructuring
- Performance Measures (Closeout & UCAs)
- Parametric Estimating

- Vision
 - DCMA People Teaming to Provide World Class Contract Management Services
- Mission
 - Provide Customer Focused Contract Management Services, Throughout the Acquisition Life Cycle-Around the Clock, Around the World.
- Goals
 - Deliver Great Customer Service
 - Lead the Way to Efficient and Effective Business Processes
 - Enable DCMA People to Excel

People

- People are the foundation of our success and our most valuable asset

Service

- One focus: Customer focus

Excellence

- Doing things right the first time

Integrity

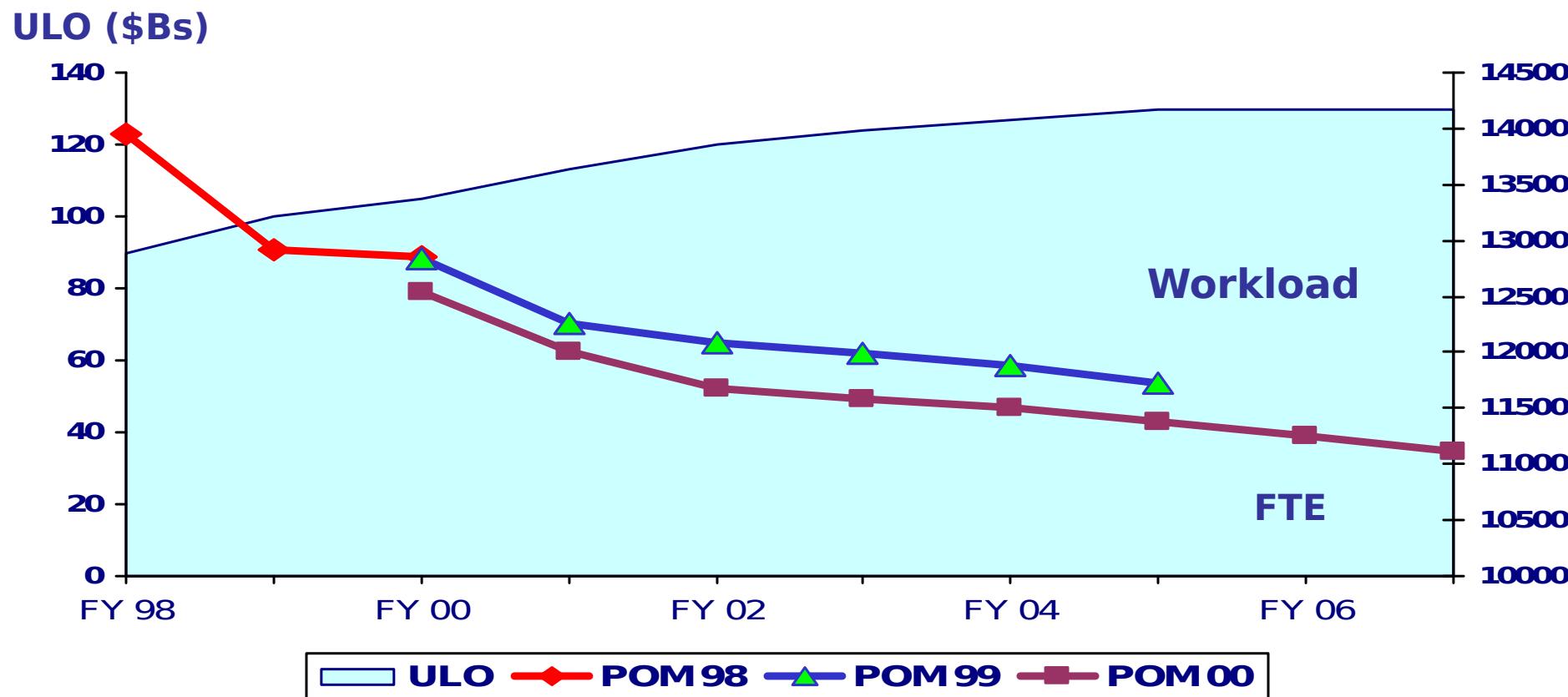
- Operating with the highest standards of ethical conduct

Innovation

- Seeking improvements that add value to our customers

Customer Workload

POM	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>FY 07</u>
FTE	12,544	12,014	11,683	11,589	11,501	11,373	11,250	11,107



Integrated Management System Framework

One Book Process Definition

PLAS Reporting by Process

Activity Based Management

**Command-wide
Performance Contracts**

Accountability for results

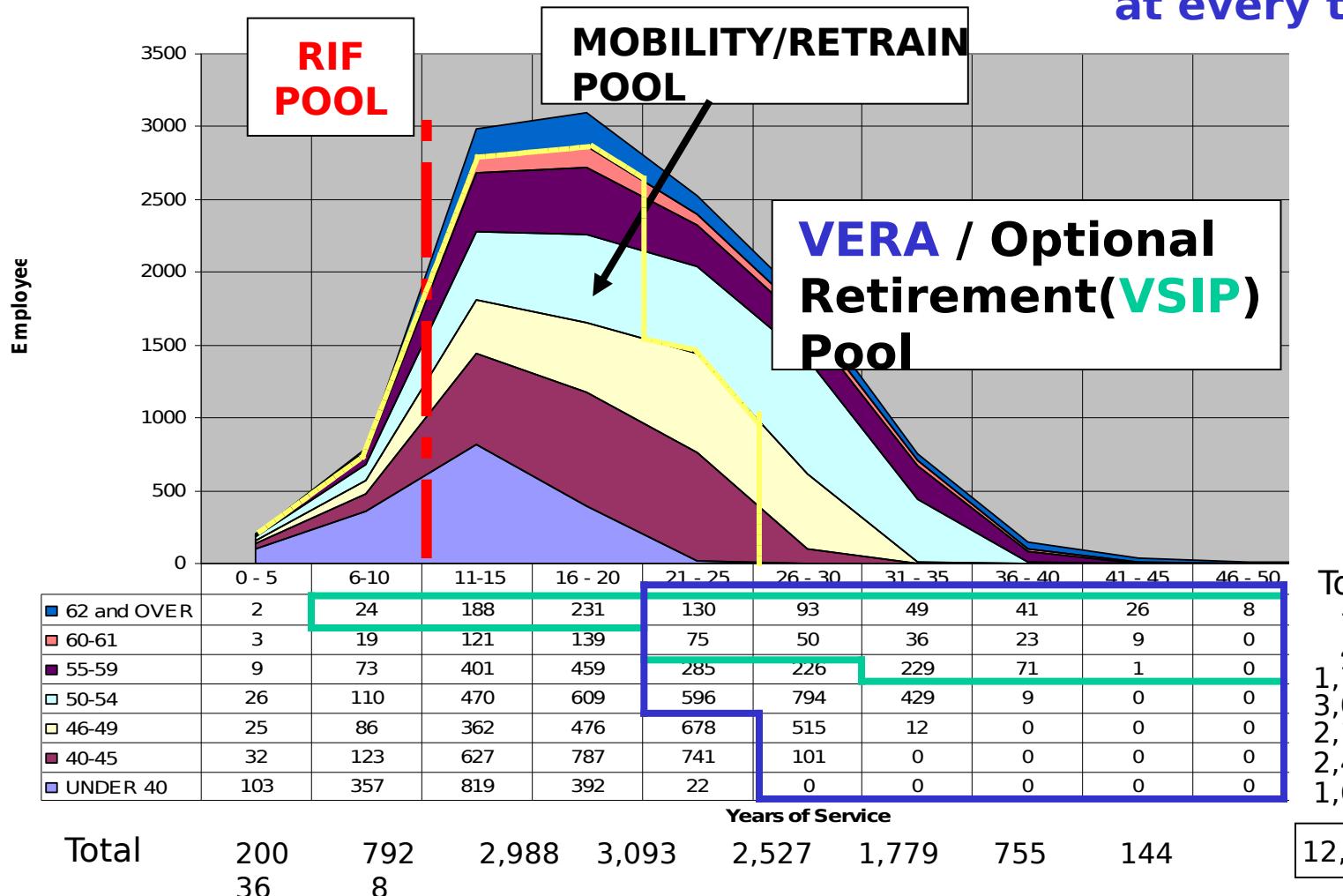
- Right Item
- Right Time
- Right Price

DCMA Service Sets

- Pre-Contractual Advice Services
- Major Program Services
- Risk Assessment Services
- Product Support Services
- Delivery Services
- Pricing/Modification Services
- Bus & Fin Systems Services
- Flight Ops Services
- Payment & Fin Mgmt Services
- Contract Closeout Services
- Services Support
- Organizational Support

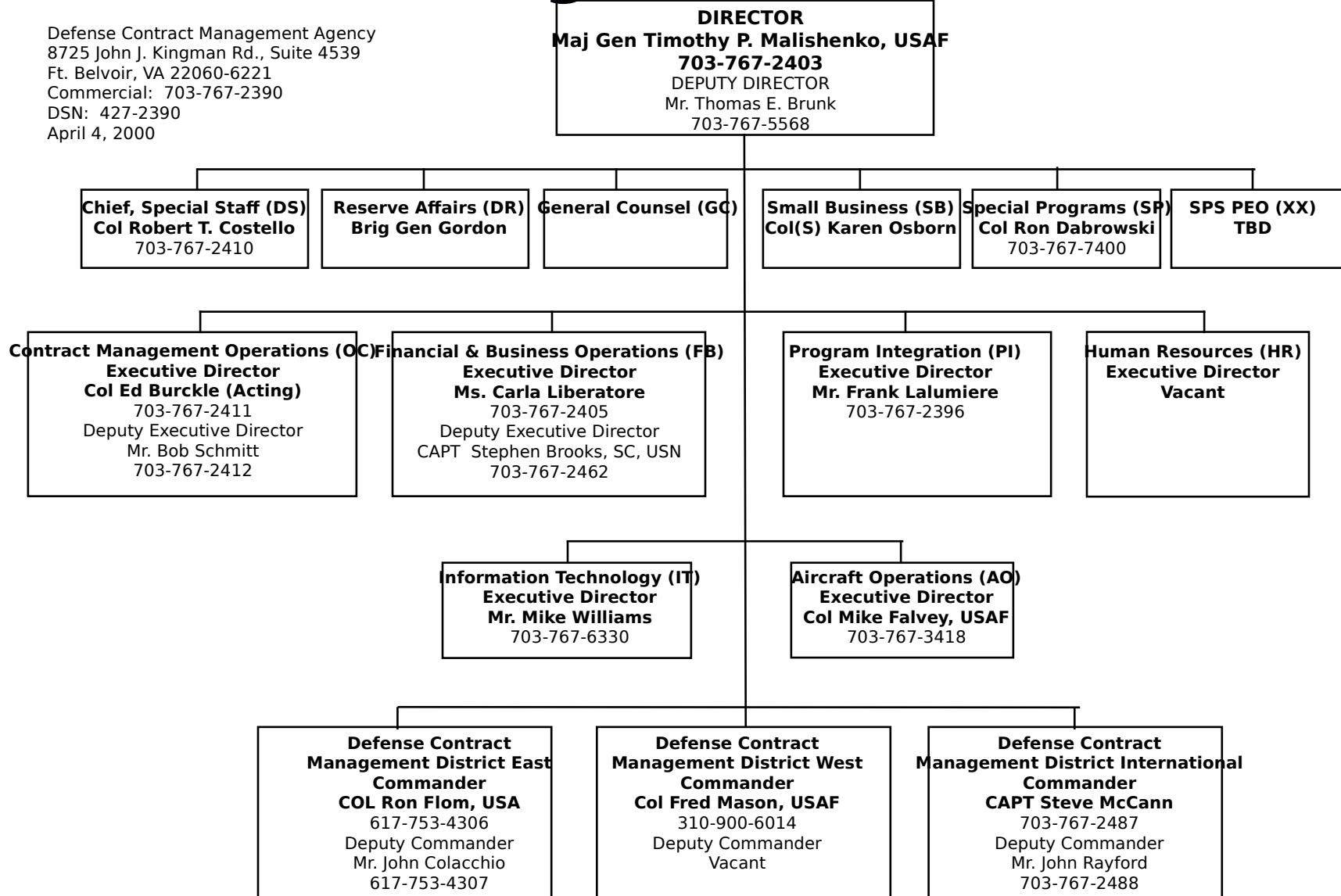
DCMA Acquisition Downsizing the Workplace

Funding impacts at every turn



Agency Organization

Defense Contract Management Agency
8725 John J. Kingman Rd., Suite 4539
Ft. Belvoir, VA 22060-6221
Commercial: 703-767-2390
DSN: 427-2390
April 4, 2000



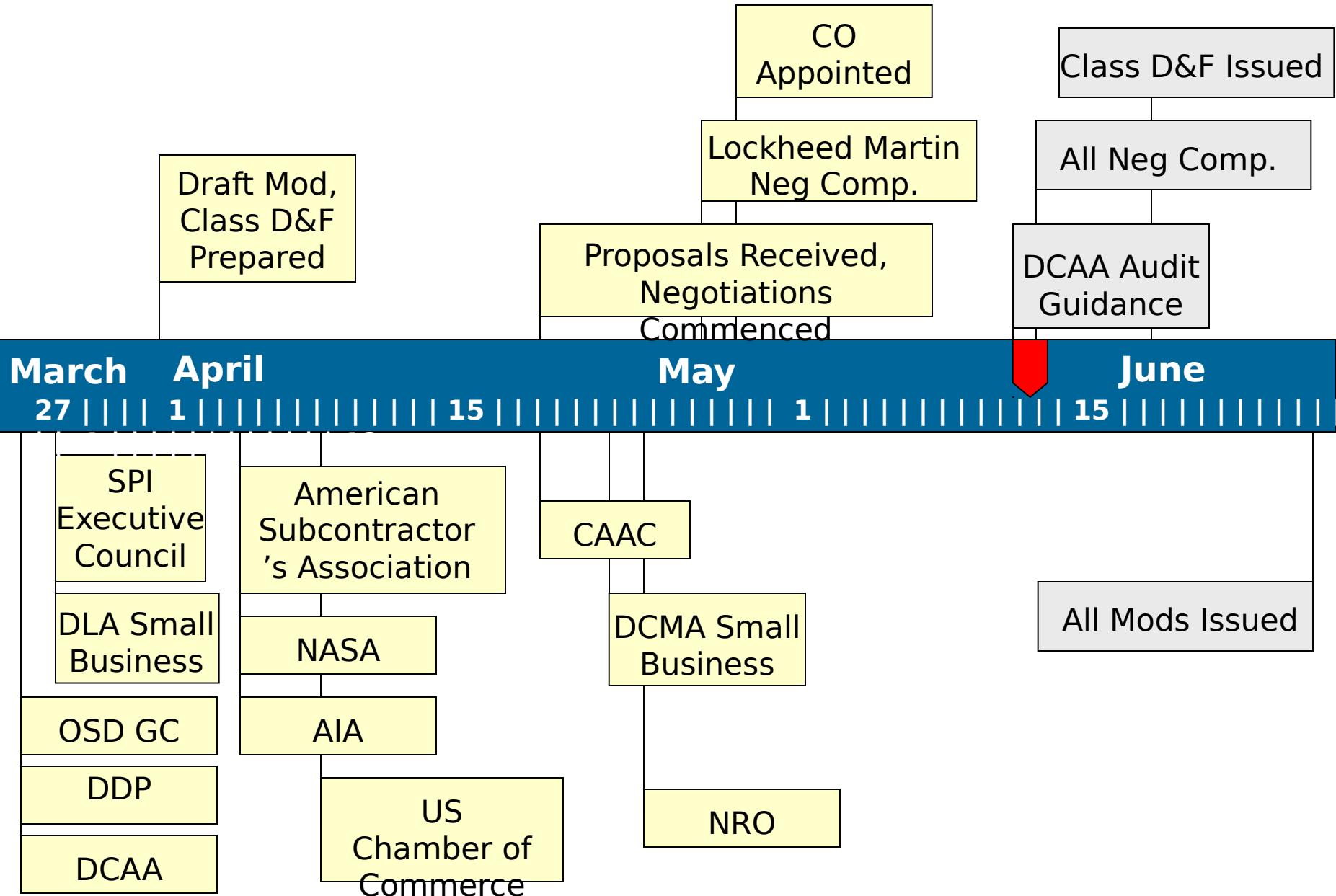
Panel's Recommendations

- Keep current \$500,000 contract threshold **Done!**
- Apply CAS after receipt of \$7.5M contract **Done!**
- Raise full coverage threshold to \$50M **Done!**
- Exempt FFP -- no certified cost/pricing data **Done!**
- Waiver authority to contracting agencies **Done!**
- Review of Standards **To begin soon?**
- Remove CASB from OFPP **Still under consideration**

***Panel's Final Report issued to Congress April 1999;
CASB Interim Rule implementing FY 2000 Defense
Authorization Act effective April 2000***

Government/Commercial Buying Practices

- Key Principles
 - Trade-offs - Cost, Schedule, Performance trade space
 - Competition - particularly on development programs
 - Risk Reduction - before development (incremental)
- Establishing Fair & Reasonable Prices
- “Agreeing on Contracts” - Performance Based & Incentives
- Shifting Progress Payments to Performance Milestones



RECORD OF WEIGHTED GUIDELINES APPLICATION					REPORT CONTROL SYMBOL DD-A&T(Q)1751
1. REPORT NO.	2. BASIC PROCUREMENT INSTRUMENT IDENTIFICATION NO.			3. SPIN	4. DATE OF ACTION
a. PURCHASING OFFICE	b. FY	c. TYPE PROC INST CODE	d. PRISN		a. YEAR b. MONTH
5. CONTRACTING OFFICE CODE DCMC-OA			ITEM	COST CATEGORY	
				OBJECTIVE	
6. NAME OF CONTRACTOR Any company			13. MATERIAL	90,000.00	
			14. SUBCONTRACTS		
7. DUNS NUMBER	8. FEDERAL SUPPLY CODE		15. DIRECT LABOR	224,000.00	
9. DOD CLAIMANT PROGRAM	10. CONTRACT TYPE CODE		16. INDIRECT EXPENSES	364,000.00	
11. TYPE EFFORT	12. USE CODE		17. OTHER DIRECT CHARGES	22,000.00	
			18. SUBTOTAL COSTS (13 thru 17)	700,000.00	
			19. GENERAL AND ADMINISTRATIVE	42,000.00	
			20. TOTAL COSTS (18 + 19)	742,000.00	
WEIGHTED GUIDELINES PROFIT FACTORS					
ITEM	CONTRACTOR RISK FACTORS	ASSIGNED WEIGHTING	ASSIGNED VALUE	BASE (Item 18)	PROFIT OBJECTIVE
21. TECHNICAL		20%	4.00		
22. MANAGEMENT		30%	4.00		
23. COST CONTROL		50%	4.00		
24. PERFORMANCE RISK (COMPOSITE)			4.00	700,000.00	28,000.00
25. CONTRACT TYPE RISK			3.00	700,000.00	21,000.00
26. WORKING CAPITAL	COSTS FINANCED	LENGTH FACTOR		INTEREST RATE	
	148,400.00	.65		8 %	7,717.00
CONTRACTOR FACILITIES CAPITAL EMPLOYED			ASSIGNED VALUE	AMOUNT EMPLOYED	
27. LAND				47320	
28. BUILDINGS			10.00	118300	11,830.00
29. EQUIPMENT			35.00	70980	24,843.00
30.	TOTAL PROFIT OBJECTIVE			93,390.00	
NEGOTIATED SUMMARY					
31.	TOTAL COSTS	PROPOSED	OBJECTIVE	NEGOTIATED	
		820,000.00	742,000.00	681,570.00	
32.	FACILITIES CAPITAL COST OF MONEY (DD Form 1861)		18,928.00	18,856.00	
33.	PROFIT		93,390.00	94,580.00	
34.	TOTAL PRICE (Line 31 + 32 + 33)	940,500.00	854,318.00	795,006.00	
35.	MARKUP RATE (Line 32 + 33 divided by 31)	15 %	15 %	17 %	
CONTRACTING OFFICER APPROVAL					
36. TYPED/PRINTED NAME OF CONTRACTING OFFICER (Last, First, Middle Initial) Whoever	37. SIGNATURE OF CONTRACTING OFFICER		38. TELEPHONE NO.	39. DATE SUBMITTED (YYYYMMDD)	
OPTIONAL USE					
96.	97.	98.	99.		

Facilities Capital Employed

On average, 21% in FY97.

Up to 35-45% of profit objective in labor-intensive production contracts

- Encourages investment in defense-related capital assets
- Penalizes companies that consolidate and diversify
- Limited incentive for improved performance and cost cutting measures

Given current defense policy, does it make good business sense to invest in defense-related capital assets?

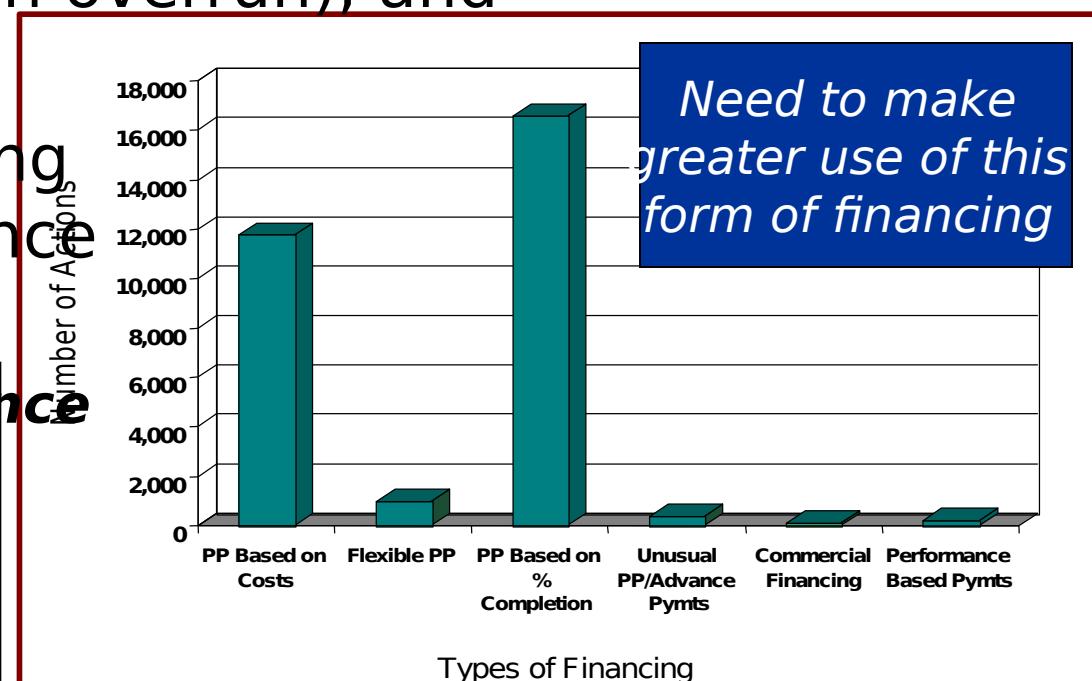
Policy **Performance Based Payments**

Benefits to suppliers include...

- up to 90% of contract price (progress payments limited to 75% of paid costs for large businesses),
- better cash flow whenever work is ahead of schedule (even in an overrun), and
- do not require an approved accounting system or compliance with MMAS

FY98 Use of Performance Based Payments

Used in less than 1% of actions, accounted for 10% of dollars financed



Performance Based Payments Issues

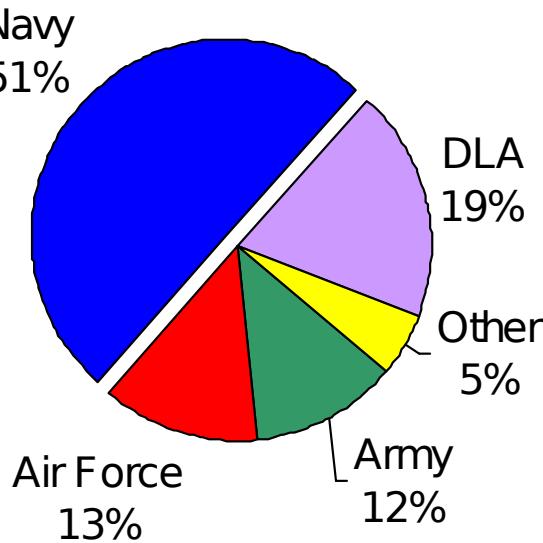
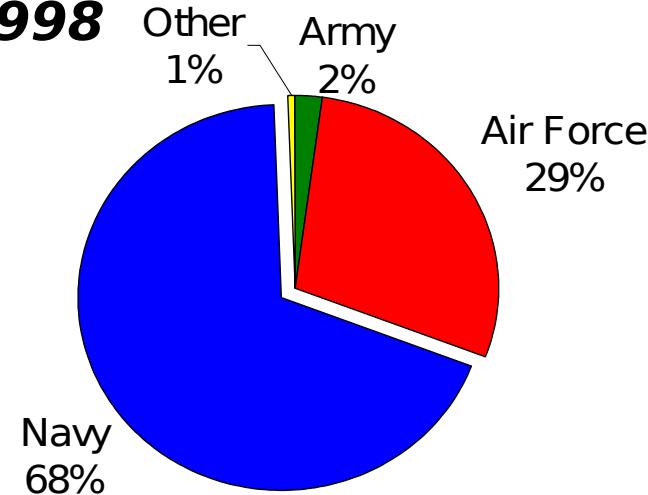
- Adequate Definition of Performance Events
- Payment Schedule linked to Expenditure Profile (Advance Payments)
- Schedule Risk - if high, may delay cash flow
- DFAS Payment
 - Progress payments easy, routine
 - Performance based, complex, harder

Consolidation Issues

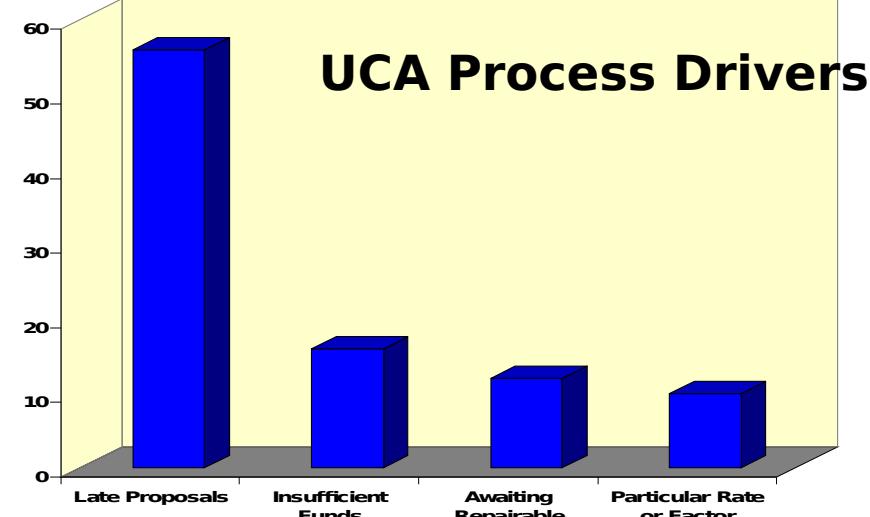
Program Risk from Consolidation at One Particular Facility

- Employee Relocation (50% expected to relocate, only 29% did)
- Lost Key Skills, (IT, Program Management)
- Cost/Schedule Impact
- Need DAE Program Impact Tolerance

Short Term Pain, Long Term Gain

Overage Contract Count
July 1998**Overage UCA Count**
July 1998

This insight, and further “drill-downs” allowed us to work issues with the buying office for both parties’ benefit

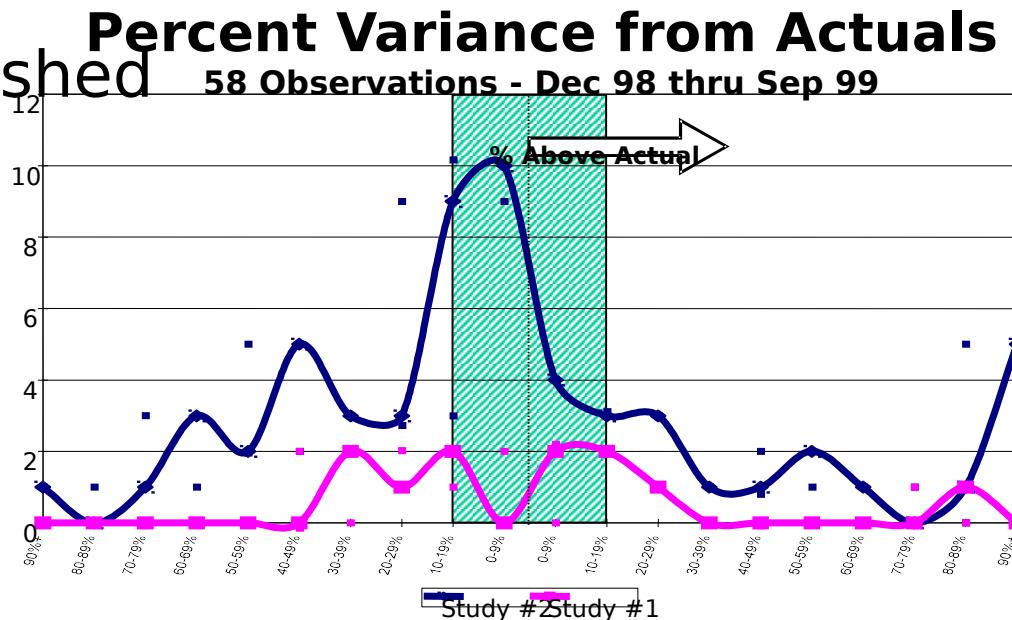


Parametric Cost Estimating

Where Parametrics can help us...

- Improve UCA definitization timeliness
- Facilitate price analysis for Price-Based Acquisition & Commercial Item Contracts
- Reduce reliance on supplier-furnished cost data

***Our accuracy
greatly improved
during our second
test***



Capability will be developed incrementally